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GOVERNOR OUTLINES BUDGET PLANS Work Underway to Manage Shortfall

PHOENIX – Governor Janet Napolitano has released detailed plans for handling any projected shortfall in the current budget for FY 2009. Although some of the plan will require legislative action, much of the work is already underway.

Arizona's fiscal year began in July. Because the national economy is in a significant downturn, state revenues are coming in well below the amounts originally projected. Although data is still limited, because it is early in the fiscal year, economists' best predictions show a range for Arizona's shortfall for the full fiscal year: at the low end, \$320 million; a mid-range estimate of \$450 million; and a pessimistic, high-end projection of \$800 million, should the economy stay slow for a protracted period of time. These forecasts are based on the best information available now. Economic conditions are updated on a monthly basis, and the forecasts will be adjusted accordingly.

The Governor has proposed a mix of proposals to handle the shortfall. The plans include further reductions in state agency costs; transfers of unused funds; use of the state's 'rainy day' fund for its intended purpose; and additional state budget management options. The additional options could include things like fees charged to states that house the inmates in private prisons in Arizona; securitization of the tobacco settlement; or sale or lease of the Arizona lottery. Those options remain under study.

A chart is attached, depicting how funds would be used to achieve balance given the range of scenarios.

The Governor was clear in her priorities. "My goal is to protect classroom spending for K-12 education, and to ensure that we continue to provide service to vulnerable Arizonans, including children, veterans and seniors," said the Governor. Napolitano added, "I am absolutely committed to achieving budget balance without increasing taxes."

No matter what the ultimate scenario, balancing the budget will not be an easy task. As the second attached chart shows, 45 percent of Arizona's budget is protected – because it involves a formula passed by voters, or is mandated under federal law – and cannot be cut. All cuts must come from the remaining 55 percent of the state budget.

Arizona agencies have been actively working, for more than a year, to find cost savings. For example, a hiring freeze ordered by the Governor in March, is projected to save an estimated \$40 to \$50 million dollars by the end of the current fiscal year.

Again, some of the measures will require legislative action. For that reason, the Governor has scheduled a meeting with Senate President Tim Bee and House Speaker Jim Weiers for November 6th. During the month of October, she will meet separately with each.

Yesterday, the Governor, Bee and Weiers agreed to direct their respective budget teams, JLBC (the Joint Legislative Budget Committee) and OSPB (the Governor's Office of Strategic Planning and Budgeting) to meet this week to come up with a consensus estimate of the shortfall for the current year to date.

Attached please find: a bar chart outlining various scenarios and plans; a pie chart demonstrating protected and unprotected parts of the Arizona budget; and a copy of the Governor's Budget Management Plan for FY 2009.

For more information about the Office of the Governor, please visit www.azgovernor.gov.